

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 556 - HB 678

March 13, 2015

SUMMARY OF BILL: Phases out the occupational privilege tax on all occupations subject to the tax, except for professional athletes, by reducing such tax \$80 per year over the next 5 years, effectively eliminating the tax after June 1, 2019.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$15,466,100/FY14-15
\$30,932,200/FY15-16
\$46,398,300/FY16-17
\$61,864,400/FY17-18
\$77,330,500/FY18-19 and Subsequent Years

Decrease State Expenditures – \$173,100/FY14-15
\$346,200/FY15-16
\$519,400/FY16-17
\$692,500/FY17-18
\$865,600/FY18-19 and Subsequent Years

Increase Local Revenue – \$217,900/FY14-15
\$435,700/FY15-16
\$653,600/FY16-17
\$871,500/FY17-18
\$1,089,400/FY18-19 and Subsequent Years

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-4-1703(a), occupational privilege tax is a \$400 tax on persons engaging in specified occupations in Tennessee, due and payable on June 1 of each year.
- The first tax rate reduction applies to the tax year ending on May 31, 2016, for which the tax is due on June 1, 2015. As a result, the first year impacted by this bill will be FY14-15.
- Pursuant to Tenn. Code Ann. § 67-4-1701, privilege tax collections are required to be deposited to the General Fund.

- The Department of Revenue reports that there are approximately 200,000 taxpayers that will be affected by this bill. Decreasing the tax by \$80 will result in a decrease in state revenue of \$16,000,000 ($200,000 \times \80) in FY14-15.
- There will be additional recurring decreases in state revenue of \$16,000,000 each year from FY15-16 thru FY18-19. As a result, the total decreases in state revenue are estimated to be: \$16,000,000 in FY14-15; \$32,000,000 in FY15-16; \$48,000,000 in FY16-17; \$64,000,000 in FY17-18; and \$80,000,000 in FY18-19 and subsequent years.
- Pursuant to Tenn. Code Ann. § 67-4-1709, any employer, including any governmental entity, is authorized to remit the occupational privilege tax on behalf of persons subject to the tax who are employed by such employer.
- DOR reports that there are approximately 2,164 state employees for which the State of Tennessee is paying a total of \$865,600 per year ($2,164 \times \400). This number is included in the total number of 200,000 taxpayers.
- The first year decrease in state expenditures as a result of the \$80 reduction in the tax amount is estimated to be \$173,120 ($2,164 \times \80).
- There will be additional recurring decreases in state expenditures of \$173,120 each year from FY15-16 thru FY18-19. As a result, the total decreases in state expenditures are estimated to be: \$173,120 in FY14-15; \$346,240 in FY15-16; \$519,360 in FY16-17; \$692,480 in FY17-18; and \$865,600 in FY18-19 and subsequent years.
- Fifty percent of tax savings, net of the amounts paid by the state, will be spent in the economy on sales taxable goods and services.
- The net tax savings are estimated to be: \$15,826,880 ($\$16,000,000 - \$173,120$) in FY14-15; \$31,653,760 ($\$32,000,000 - \$346,240$) in FY15-16; \$47,480,640 ($\$48,000,000 - \$519,360$) in FY16-17; \$63,307,520 ($\$64,000,000 - \$692,480$) in FY17-18; and \$79,134,400 ($\$80,000,000 - \$865,600$) in FY18-19 and subsequent years.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net increase in state sales tax revenue in FY14-15 is estimated to be \$533,905 [$(\$15,826,880 \times 50.0\% \times 7.0\%) - (\$15,826,880 \times 50.0\% \times 7.0\% \times 3.617\%)$]; the total increase in local sales tax revenue in FY14-15 is estimated to be \$217,872 [$(\$15,826,880 \times 50.0\% \times 2.5\%) + (\$15,826,880 \times 50.0\% \times 7.0\% \times 3.617\%)$].
- There will be additional recurring net increases in state sales tax revenue of \$533,905, and recurring total increases in local sales tax revenue of \$217,872, each year from FY15-16 thru FY18-19.
- As a result, the net increases in state sales tax revenue are estimated to be: \$533,905 in FY14-15; \$1,067,810 in FY15-16; \$1,601,715 in FY16-17; \$2,135,620 in FY17-18; and \$2,669,525 in FY18-19 and subsequent years. The total increases in local sales tax revenue are estimated to be: \$217,872 in FY14-15; \$435,744 in FY15-16; \$653,616 in FY16-17; \$871,488 in FY17-18; and \$1,089,360 in FY18-19 and subsequent years.
- The net decrease in state revenue as a result of this bill is estimated to be: \$15,466,095 ($\$16,000,000 - \$533,905$) in FY14-15; \$30,932,190 ($\$32,000,000 - \$1,067,810$) in FY15-16; \$46,398,285 ($\$48,000,000 - \$1,601,715$) in FY16-17; \$61,864,380 ($\$64,000,000 - \$2,135,620$) in FY17-18; and \$77,330,475 ($\$80,000,000 - \$2,669,525$) in FY18-19 and subsequent years.

- Occupational privilege tax returns are filed electronically and the Department does not have any staff dedicated to this tax. Therefore, there will be no staff reductions as a result of phasing out the occupational privilege tax.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in dark ink, appearing to read "Jeffrey L. Spalding". The signature is fluid and cursive, with the first name "Jeffrey" and last name "Spalding" clearly distinguishable.

Jeffrey L. Spalding, Executive Director

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